DOCUMENT RESUME

ED 056 311 AC 012 095

TITLE	Life Insurance: A Suggested Adult Business Education Course.
INSTITUTION	New York State Education Dept., Albany. Bureau of Continuing Education Curriculum Development.
PUB DATE	71
NOTE	38p.
EDRS PRICE	MF-$0.65 HC-$3.29
DESCRIPTORS	*Adult Education Programs; Bibliographies; *Business Education; *Consumer Education; *Course Content; Educational Objectives; Evening Classes; *Insurance Companies; Noncredit Courses
IDENTIFIERS	Life Insurance Education

ABSTRACT

This course is aimed at the buyer or potential buyer of life insurance for the purpose of helping him to a better understanding of life insurance and of aiding him in making decisions about his own life insurance coverage. It is structured to be taught one evening a week for six to eight weeks. Each session would last about two hours. The course is divided into four lessons: (1) Life Insurance, (2) Types of Life Insurance Contract, (3) Applications of Life Insurance, and (4) Programing Life Insurance. A bibliography is included. (Author/CK)

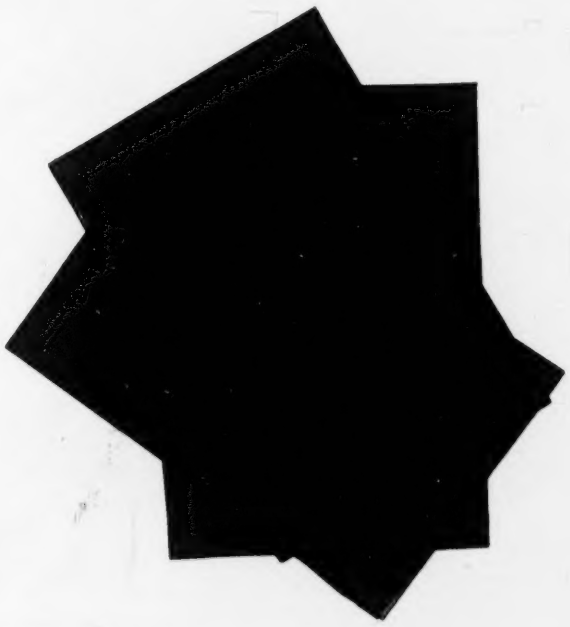
ED056311

U.S. DEPARTMENT OF HEALTH,
EDUCATION & WELFARE
OFFICE OF EDUCATION
THIS DOCUMENT HAS BEEH REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL OFFICE OF EDUCATION POSITION OR POLICY.

SCOPE OF INTEREST NOTICE
The ERIC Facility has assigned this document for processing to: AC
In our judgement, this document is also of interest to the clearinghouses noted to the right. Indexing should reflect their special points of view. VT

N-SG

LIFE INSURANCE



A Suggested Adult Business Education Course

AVI 15 005

1

The University of the State of New York/THE STATE EDUCATION DEPARTMENT
Bureau of Continuing Education Curriculum Development/Albany, New York 12224

ED056311

Life Insurance

A Suggested Adult Business Education Course

The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Bureau of Continuing Education Curriculum Development
Albany, New York 12224
1971

ED022711

THE UNIVERSITY OF THE STATE OF NEW YORK

Regents of the University (with years when terms expire)

1984 Joseph W. McGovern, A.B., LL.B., L.H.D., LL.D., D.C.L.
Chancellor- New York
1985 Everett J. Penny, B.C.S., D.C.S., Vice Chancellor - - - - White Plains
1978 Alexander J. Allan, Jr., LL.D., Litt.D. - - - - - - - - - Troy
1973 Charles W. Millard, Jr., A.B., LL.D., L.H.D.- - - - - - - Buffalo
1972 Carl H. Pforzheimer, Jr., A.B., M.B.A., D.C.S., H.H.D.- - Purchase
1975 Edward M. M. Warburg, B.S., L.H.D.- - - - - - - - - - - - New York
1977 Joseph T. King, LL.B. - - - - - - - - - - - - - - - - - - Queens
1974 Joseph C. Indelicato, M.D.- - - - - - - - - - - - - - - - Brooklyn
1976 Mrs. Helen B. Power, A.B., Litt.D., L.H.D. LL.D.- - - - - Rochester
1979 Francis W. McGinley, B.S., LL.B., LL.D. - - - - - - - - - Glens Falls
1980 Max J. Rubin, LL.B., L.H.D. - - - - - - - - - - - - - - - New York
1986 Kenneth B. Clark, A.B., M.S., Ph.D., Litt.D.- - - - - - - Hastings on Hudson
1982 Stephen K. Bailey, A.B., B.A., M.A., Ph.D., LL.D. - - - - Syracuse
1983 Harold E. Newcomb, B.A. - - - - - - - - - - - - - - - - - Owego
1981 Theodore M. Black, A.B. Litt.D. - - - - - - - - - - - - - Sands Point

President of the University and Commissioner of Education
Ewald B. Nyquist

Executive Deputy Commissioner of Education
Gordon M. Ambach

Deputy Commissioner for Elementary, Secondary, and Continuing Education
Thomas D. Sheldon

Associate Commissioner for Instructional Services
Philip B. Langworthy

Assistant Commissioner for Instructional Services (General Education)
Bernard F. Haake

Director, Division of School Supervision
H. George Murphy

Chief, Bureau of Continuing Education Curriculum Development
Herbert Bothamley

Assistant Commissioner for Occupational Education
Robert S. Seckendorf

Director, Division of Occupational Education Instruction
Robert H. Bielefeld

Chief, Bureau of Business Education
Hobart H. Conover

Foreword

The adult course covered by this instructor's guide is intended to help a student decide what life insurance coverage he should have and how to arrange for getting it.

The guide explores the definition of insurance and of life insurance, and explains the protection provided by life insurance. The nature of term, whole life, and endowment insurance are covered at some length. Applications of each of the types of life insurance are then presented. Programing (or preplanning) of life insurance is explored in some detail as a way of assuring that the economic needs of survivors are provided for.

The material for this course was prepared by John H. Clyne, consulting manager of the Phoenix Equity Planning Corporation, Albany, and chairman of the Advanced Education Committee of the Eastern New York Chapter of the American Society of Chartered Life Underwriters. E. Noah Gould, associate in the Bureau of Continuing Curriculum Development, coordinated the project and edited the manuscript. Eugene P. Whitney, associate in the Bureau of Business Education, reviewed the manuscript before publication.

Both of the bureaus mentioned welcome suggestions for improving this instructor's guide, particularly those growing out of its use in teaching.

HERBERT BOTHAMLEY, *Chief*
Bureau of Continuing Education
Curriculum Development

H. GEORGE MURPHY, *Director*
Division of School Supervision

Message to the Instructor

This course is not intended to prepare anyone for employment; rather it is aimed at the buyer or potential buyer of life insurance. It is expected to help him to a better understanding of life insurance and thus aid in making decisions about his own life insurance coverage.

A course such as this one would typically be taught one evening a week for about 6 to 8 weeks. Each session would last about 2 hours.

Since the course presented here is divided into four lessons, the content covered in a session of class will not necessarily coincide with one of the four lessons. The content of this booklet is suggestive only--not mandatory.

Instructors for this course can be found among the better qualified life insurance underwriters and among college and high school teachers of business subjects.

The bibliography included in this booklet should be helpful to the instructor. The Life Insurance Fact Book is an especially good reference and is also suitable for use as a textbook by the students. The instructor can obtain enough copies for all students in his class from the Life Insurance Institute.

HOBART H. CONOVER, *Chief*
Bureau of Business Education

ROBERT H. BIELEFELD, *Director*
Division of Occupational Education Instruction

Contents

	Page
Foreword	iii
Message to the Instructor	iv
Lesson 1: Life Insurance	1
Lesson 2: Types of Life Insurance Contract	7
Lesson 3: Applications of Life Insurance	16
Lesson 4: Programing Life Insurance	23
Selected Teaching Aids and Bibliography	32

Lesson 1

Life Insurance

OBJECTIVES

To provide the students with an understanding of what life insurance is and how it protects:

1. Against the loss of human life value in case of premature death
2. Against the economic effects of old age
3. Against the loss of income in case of long disability

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
I. Introduction A. Personal introductions	Introduce yourself to the class and briefly describe your background. Then let each member of the class introduce himself and mention his reason for being in the class. If it seems appropriate, also have each student mention his background and his current job. All this will help create an informal atmosphere.
B. Nature of the course	Explain briefly the nature of the course, and such things as class hours, classrooms, and any paperwork needed. Also explain what supplies the students might need, such as a notebook.
II. Definitions A. Insurance	Discuss with the class the general nature of insurance, and present the definition (below) to them. Have them then discuss insurance in the light of the definition. A good definition to begin with is: In general, insurance is a contract in which the insurer (the company) is bound to pay a certain amount of money for a specified type of loss.
B. Life insurance	From the standpoint of the individual, life insurance may be defined as consisting of a contract whereby for a stipulated amount of money, called the premium, one party (the life insurance company) agrees to pay the insured, or his beneficiary, a fixed sum upon

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
	death, or some other specified event (such as an endowment date, or reaching age 60 or 65). The purpose of life insurance is to create an estate either 1. At the time of the death of the insured, or 2. At a future date predetermined by the insured. Most people are familiar with, and own 1. Fire insurance on their home, business, or other property 2. Automobile insurance
C. Sharing the risk	In life insurance the same principle is used in computing rates as in both fire insurance and automobile insurance: *sharing the risk*. The function of life insurance is to share the risk of premature death, with its resulting loss of income. The essence of life insurance is the substitution of *certainty* (of income to survivors of the deceased) for *uncertainty*. It would be impossible to predict with certainty the time of death of an individual. To attempt it would be gambling. But when the principle of the *law of large numbers* is applied (500,000 or more lives) it is possible to determine almost exactly the number of persons, out of a given number, who will die each year. The law of large numbers takes the gambling, or *uncertainty*, out of life insurance, and substitutes *certainty*. It has been said that there is nothing more uncertain than life, and nothing more certain than life insurance.
D. Mortality table	To predict the number of deaths each year among a given number of people, and to determine an adequate rate (or *premium*) for each age group, a *mortality table* is used.

CONTENT OUTLINE

TEACHING SUGGESTIONS AND TECHNIQUES

A mortality table (one of the factors on which rates for life insurance are established) is a statistical table showing the death rate at each age, usually expressed as so many per thousand lives. (See mortality tables in Life Insurance Fact Book.)

For instance:
At age 25 the death rate is 1.93 per thousand
At age 40 the death rate is 3.53 per thousand
At age 55 the death rate is 13.0 per thousand
At age 70 the death rate is 49.79 per thousand
At age 85 the death rate is 161.14 per thousand

The mortality table most frequently used for life insurance in New York State is the Commissioner's 1958 Standard Ordinary Table, which is the legal table in New York State.

III. The Search for Security

Throughout recorded history the primary concern of man has been for security. Next in his concern are the basic physiological needs (food, water, shelter); followed by concern for safety from external danger.

Today men are also concerned about economic security for themselves and their families. While he lives, a man usually provides economic security through his earned income. As long as he continues to work and earn a regular income the family enjoys economic security.

Life insurance is an effective way of assuring economic security for the family if the breadwinner dies or is disabled.

Social insurance (Social Security) and group insurance (if available) provide a base of economic security for a family if the breadwinner dies. Individual life insurance provides an

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
	individual security program, based on the standard of living of the family and the father's love for his family.
IV. Economic Hazards of Life	There are four great economic hazards in the life of man: 1. Early death 2. Extended longevity 3. Extended disability 4. Financial emergency The owning of an adequate amount of cash value (permanent) life insurance enables a man to protect his family against these four hazards.
A. Early death	Everyone must die at some time. When a man dies too soon it is a great tragedy. A man dies too soon if he has not lived to complete his plans for his family. For instance: (1) When his children are too young to provide for themselves, and (2) before he has been able to build an estate adequate to support his widow in reasonable comfort, to provide education for his children, and to complete the payments on his home.
B. Extended longevity	It is pitiful to be forced to retire without adequate income to live in the manner to which he and his wife are accustomed. If this should happen after a lifetime of work, he becomes a burden on his children, who probably already have their own problems supporting a family. Social Security old-age payments and a company pension may ease the burden. But the question is: "Will they be enough?"
C. Extended disability	Total and permanent disability is often referred to as "living death." Still living, the man is incapable of earning income but is a heavy consumer. His family spends the family's savings, and often goes deeply into debt to pay living costs, medical costs, and extras necessary because of the illness. Only an adequate life and health insurance plan will provide against this cruel hazard.

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
D. Financial emergency	During the lifetime of every wage earner there occur many cases of emergency needs for cash. If the man has had the time, and the prudence, this cash may be provided from his accumulated savings account. For most young men there has not yet been enough time to accumulate an estate outside of his life insurance. For this man, the cash values of his life insurance make a sure, safe, and dependable source of emergency cash.
V. Human Life Values	Most men are familiar with fire insurance and automobile insurance. They adequately insure their property for its full value. They own automobile insurance in an amount adequate to protect the family of a person they might injure or kill in an accident. But the lives of most men are not adequately insured for their own "human life value." This represents the capitalized value of that portion of present and future earnings that are used for the benefit of his family. Many men adequately insure their property values, but their own human life value is woefully under-insured. For instance: a man aged 25 with a potential earning capacity of $10,000 a year, will have approximately 40 years of earning before retirement at 65. This 40 years represents $400,000 of earnings lost should he die at age 25. Part of this loss of human life value can be compensated for by group insurance, or by benefits under Social Security, if his family qualifies. But for most men there is a tremendous gap between benefits and the income to which the family is accustomed. Life insurance is usually the only safeguard for this family.

SUMMARY

The basic purpose of life insurance is to *share the risk* by protecting against economic loss due to death. When death occurs the earning power of the deceased is lost. Indemnifying this loss is the function of life insurance.

To share the risk many contribute to a common pool through annual premiums. This pool, called a mortality fund, is managed by the life insurance company. Pooled contributions of participants (called *policy owners*) provide indemnity for the family which suffers loss through death.

An insurance policy is a contract between the insurance company (called the insurer) and the owner of the policy.

Lesson 2

Types of Life Insurance Contract

OBJECTIVES

To provide the students with a basic understanding of the following types of life insurance policies:

1. Term insurance
2. Whole life insurance
3. 20-payment life
4. Endowment insurance
5. Retirement income insurance
6. Special policies

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
	There are four basic types of life insurance contracts issued by life insurance companies: 1. term 2. whole life 3. endowment 4. combination of two or more of these
I. Term Insurance A. Definition	*Term insurance* provides protection for a limited period of years. The face value of the policy ($1,000, $5,000, $10,000) is payable only if death occurs during the stipulated term, and nothing is paid if the insured dies after the specified period. In this respect term insurance is similar to fire insurance--indemnification is paid only if the loss occurs during the term of the contract. The period covered may be only 1 year or may extend up to age 65. The premium paid for the protection will vary with the length of the term of the policy. A short term policy (1 year) will be much less expensive than a long term policy (to age 65).
B. Length of term	In addition to 1-year term, and term to age 65, mentioned above, term

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
	insurance is written for other periods. The most common periods are 5, 10, and 20 years.
	For insureds of the same age, the premium for 1-year term is the least expensive; for the long term (to age 65), more expensive. For instance, in one leading company for a male aged 30 the premium for 1-year term is $3.57 per thousand, while for term to age 65 it is $12.28 per thousand.
C. Temporary	Term insurance is often referred to as *temporary* insurance because it is in effect for a limited period. Term insurance is also referred to as "if" insurance, because the face value of the policy is paid only "if" the insured dies within the period specified in the policy. Nothing is paid if the insured dies after the period specified.
D. Renewable	Often there is a clause in a term policy that permits the insured to renew the policy. Renewal is for a specified period, usually the same period as the original term, i.e. 5 years, 10 years, etc. up to a specified maximum age (usually 65). Upon renewal the premium is computed at the attained age of the insured, and not at the original age.
E. Convertible	Most term policies contain a clause which permits conversion to permanent life insurance. This conversion would usually be at the then attained age of the insured, for the type of policy to which conversion is made.
F. No cash value	Term insurance has the lowest premium for the age of the insured. The reason is that there is no cash value, that is, savings in the policy. Protection *only* is provided, and that for a limited number of years.
II. Whole Life Insurance A. Definition	A *whole life* policy is based on the assumption that premiums will be paid throughout the lifetime of the insured. For this reason, whole life is known as *permanent* insurance. It is paid

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
	when the insured dies, regardless of his age, as long as the policy is in force. Whole life is also known as *ordinary life* or *straight life*.
	The premium is level, i.e. it will not change during the lifetime of the insured. If the policy owner is alive at age 80, the premium is the same as at the date of purchase.
B. Savings, with insurance	The whole life policy combines savings with insurance. The savings are represented by the cash values of the policy, which are available to the insured during his lifetime, either in cash, or as a loan. If the cash value is taken in cash, the face value of the policy is reduced. The loan is available at a predetermined rate of interest simply on oral request, without any paperwork. Repayment of the loan is *optional* with the policy owner; interest is charged until it is repaid.
C. Permanent insurance	The whole life policy is the most popular of the permanent types of life insurance. It never has to be renewed or converted. It provides the maximum amount of permanent insurance for the premium paid. It combines savings with protection, and it affords permanent protection with the lowest initial outlay. It is the basic permanent type of policy for protecting a family.
III. 20-Payment Life A. Definition	One of the objections to whole life insurance is the continued payment of premiums throughout life.
	Many persons feel they should have protection for their entire lives but would like to compress the premium paying years into a shorter period. With retirement occurring at earlier ages, most men desire their premiums to be completed before retirement.
	The *20-payment* policy pays the face of the policy at the time of death, but premiums are payable for only 20 years from the date of purchase. This policy

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
	enables the policy owner to complete his premiums during what are usually his years of highest earnings. Because premiums are paid for only a limited number of years the annual premium is greater than for the whole life policy. The cash values in the 20-pay policy are also greater.
B. Paid up insurance	After the 20 payments are made, the policy remains in force (and increases in cash value) without the need to pay further premiums. The face amount of the policy is paid upon death.
IV. Other Limited Payment Policies	In addition to the 20-pay policy there are other limited payment policies. Among the most popular of these are: 1. life paid up at age 65 2. 10-pay life 3. 5-pay life
	Policies with various payment plans are designed to give the insured a choice in meeting his needs. Some desire to complete the premium payments in a short period (say 5 years); others in a longer period (say at age 65).
	The shorter the premium-paying period the higher will be the annual premium per thousand of protection.
V. Endowment Policies	*Endowment insurance* provides for the payment of the face amount of the policy within a specified period. If the insured dies within the specified period, the face amount is paid to the beneficiary. If the insured is alive at the end of the specified period, it is paid to him and the insurance in force ends.
	For instance: a 20-year endowment for $5,000 purchased at age 30, would pay $5,000 to the benficiary if the insured died between 30 and 50. If the insured was living at age 50, the $5,000 face of the policy would be paid to him.
	In this policy there would be no insurance after age 50. Only one payment

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
	of $5,000 is made, either at death prior to the elapsing of 20 years, or at the end of the endowment period. The premiums for endowment insurance are higher per thousand of insurance than for whole life, or limited payment life. This is because: 1. There is a limited payment period. 2. The face amount of the policy is paid within a limited period, either by death, or by survival for 20 years. Cash values in endowment policies are higher than in either whole life or limited payment policies.
A. Other types of endowment	In addition to the 20-year endowment described above, there are other endowment policies. Among these are: 5-, 10-, and 30-year endowment, and endowment at age 65. The shorter the premium-paying period, the higher will be the annual premium per thousand of insurance. But also, the cash values of the policy between date of purchase and date of endowment, for instance, will be higher. A 5-payment policy would have more cash value per $1,000 of face value, a year after issue, than a 10-payment policy. No matter what the length of the premium-paying period, all endowments mature for the face amount of the policy at the end of the specified endowment period, unless paid earlier because of the death of the insured.
VI. Retirement Income Policies	In a *search for security* most men are concerned about adequate income for themselves and family after retirement. To add to income from pension and Social Security after retirement, there is the *retirement income* policy.
A. Definition	Designed primarily to give income after retirement, this policy is a combination of endowment insurance and protection.

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
	Usually available in a unit consisting of $1,000 protection before retirement and a guaranteed income of $10 per month after retirement, this policy combines protection and savings.
	After retirement age there is no lump sum insurance protection. The monthly income, however, is guaranteed as long as the insured lives.
	This type of retirement income may be purchased in amounts from $10 a month, to $1,000 a month, or more.
	Because the cash value is high during the accumulation period, and the endowment needed at retirement is high, the premium per thousand of insurance is high.
	In addition to retirement at 65, this type of policy is also available for retirement at ages 55, 60, and 70.
VII. Special Policies	Although there are only three basic types of life insurance policies--term, whole life, and endowment--there are many policies available that are combinations of two or more basic types.
	These special policies usually combine large amounts of term insurance with smaller amounts of whole life to provide protection for special situations, while at the same time providing some savings.
	Usually each life insurance company has its own name for the *special* policy that it has constructed. Generally these policies fall into the following classifications.
A. Double or triple protection	For this policy, as the name indicates, term insurance is added to a basic whole life policy for a limited number of years (usually 10 or 20 years) to provide protection double or triple that of the whole life basic policy. Should the insured die within the specified period after purchasing the policy, the face amount would be paid.

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
	If the policy owner does not die within the specified period, the term insurance expires and the protection reverts to the face amount of the basic permanent whole life policy. Example: A $10,000 basic whole life policy, with triple protection would have $20,000 of term insurance added for 20 years. If the insured died within 20 years after the purchase of the policy, the Company would pay $30,000. If death occurred later than 20 years from the date of purchase, only $10,000 would be paid.
B. Family income policy	This is a combination of reducing term insurance and a basic whole life policy. This policy pays an income to the family of the deceased for a certain period designated in the policy. The family income is usually $10 per month for each $1,000 of basic whole life policy. For instance: a $10,000 whole life basic policy would pay $100 per month of income to the family, within the period of 20 years from the date of purchase of the policy. Example: A man aged 30 purchases a $100 a month *family income* policy. If he dies before age 50 the policy will pay $100 a month until his 50th birthday. At that time the income of $100 a month will cease, and the insurance company will pay to the beneficiary the $10,000 amount of the basic whole life portion of the policy. If the insured lives beyond age 50 there would be no income paid under the family income portion of the policy. At death the $10,000 would be paid. In addition to family income policies for 20 years, they are also issued for other periods: 10 years, 15 years, 25 years. Also, the amount of the monthly income can be higher or lower than 10 times the basic policy. Some policies are

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
	written with income of $15 per month for each $1,000 of face amount of the basic policy. For a $10,000 basic policy the monthly income would be $150. Other variations include: $200 per month of income with a $10,000 basic policy, and $50 a month of income with the same basic policy. The higher or lower income per month is arranged for by varying the amount of term insurance added to the basic policy. The premium varies also with the amount of income provided for.
C. Family policy	The *family policy* is a combination of a whole life policy and term insurance. Unlike other combination policies, the family policy insures not only the head of the family, but also his spouse and children up to a specified age. Typically, the head of the family is insured for $5,000 of whole life. The spouse is usually insured for $1,000 and each child under 21 for $1,000. Additional children born after the purchase of the policy are automatically added, at no increase in premium. The amounts of insurance may vary with the company issuing the policy, but the principle is the same regardless of amounts. One premium for the whole life insurance on the life of the head of the family covers the insurance on all members of the family. The appeal of this type of policy is probably that it insures the entire family unit in one policy, for one premium.
VIII. New Plans	The policies outlined above are the most popular plans today but new policies will be constructed as new needs are envisioned by companies or demanded by purchasers.

20

SUMMARY

In buying a life insurance policy it is important for the purchaser to select the type which best meets his needs. Some policies provide protection exclusively and have no savings element. Others stress the savings element, with less protection.

The right type of policy for an individual is the type that best meets his needs at the time of purchase. For one person, the best policy might be one that provides the maximum protection for each dollar spent. For another person, the best policy might be one with the savings element receiving the largest part of each premium dollar.

The selection of the correct policy is so important that the purchaser should have the advice and counsel of a qualified, licensed life insurance agent.

Lesson 3

Applications of Life Insurance

OBJECTIVES

To provide students with an understanding of applications of each type of life insurance

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
I. Term Insurance	Term insurance is protection oriented: it has no savings element. It is also known as *temporary* insurance. It is issued for a limited period: 1 year, 5 years, 10 years, 20 years, to age 65. Term insurance is also known as "if" insurance. It pays the face amount of the policy "if" the insured dies within the term of the policy, and pays nothing if the insured survives the term.
A. Uses	Term insurance should be purchased to cover only temporary needs that will no longer exist at the end of the contract period. Among these temporary needs might be listed: 1. Additional protection for a loan 2. Protection of a mortgage obligation 3. Protection of insurability of the insured 4. Protection of higher education for children 5. Protection of a business interest 6. Extra family protection during child-raising period
1. Additional protection for a loan	During the period of a loan, term insurance would reimburse the lender if the insured should die while still owing money. The period of the term insurance should coincide with the period of the loan. In the event of death of the insured his family would receive a receipt for the unpaid balance of the loan.

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
2. Protection of a mortgage obligation	The term insurance should cover the amount of the mortgage and the period should be the same as the mortgage paying period. If the insured dies the family would own their home free and clear, that is, the balance of the mortgage obligation would be paid off. If the mortgage has an amortizing feature (the outstanding obligation reduces each year) reducing term insurance might be used. With reducing term the amount of insurance is reduced as the amount of the outstanding mortgage reduces.
3. Protection of insurability of the insured	A young man who has potential for much higher earnings in later years, often does not have the income to purchase the amount of permanent life insurance he requires. This is particularly true of professional men: medical doctors, dentists, engineers, etc. With a young family these men need life insurance protection immediately. Also, at a later date when they can afford the premium for permanent protection they may be uninsurable. Temporary term insurance will fill the need for protection in the early years. If the temporary term has the right of renewal and conversion, a change can be made (without evidence of insurability) to permanent insurance of the same amount, at a later date.
4. Protection of higher education for children	The cost of higher education is often paid by the parent of the student out of current income. If the parent should die before or during the educational period, there would be no funds to keep the child in school. Term insurance for the educational period would provide the funds.
5. Protection of a business interest	When a person starts or expands a business interest often all available cash resources are invested. If the owner lives, the cash invested will be replaced in the reserves of the

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
	family. If the investor dies in the early stages of the business, the cash will be lost or, at best, the amount reduced. A term insurance policy would indemnify the loss in case of death.
6. Extra family protection during child-raising period	Family expenses are highest during the child-raising period. Often the income available to a bereaved family from the proceeds of permanent life insurance and Social Security benefits are not sufficient to provide adequate income. The proceeds from temporary term insurance during this period, could give adequate income to the widow and children until the children are educated and on their own.
II. Whole Life Insurance	Whole life provides *permanent* protection for the entire lifetime of the insured. The insurance company contracts to pay the face amount of the policy when the insured dies. Whole life policies also have a savings element which is represented by the reserve or cash value of the policy. This cash value grows each time a premium is paid, increasing as the insured gets older.
A. Ordinary life and straight life	Ordinary life and straight life are other names for whole life insurance. These three terms are used interchangeably. The premiums for this kind of insurance are level and do not increase with the age of the insured. These policies are the basic permanent insurance plans. The premiums continue for the entire life of the insured, and are the lowest for the permanent plans of insurance. Cash values are moderate and increase each year.
B. Limited pay plans	Limited payment policies are permanent insurance plans, with the face of the policy paid upon the death of the insured. Premiums are compressed into a stated number of years and

24

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
	become paid up for the face amount of the policy when the payments are completed. The limit of the premium paying years may be stated in the number of annual premiums to be paid, or to a designated age of the insured, (for instance: to age 65).
1. 10-pay and 20-pay life	10-pay and 20-pay life are designed for those with the likelihood of higher earnings in the early years of the contract. Because of their higher earnings they desire to pay all the premiums in a few years.
2. Life paid up at 65	Life paid up at 65 is attractive when the insured desires permanent protection but does not want the obligation of premium payments beyond the normal working years.
III. Endowment Policies	Endowment policies, while they have a protection element, are basically a savings plan, with emphasis on the high cash value of the policy. The endowment policy provides for the payment of the face amount of the policy to the beneficiary if the insured dies within the contract period. If the insured is alive at the end of the stipulated endowment period the face amount of the policy is paid to him. With the payment of the endowment, the policy contract ends and there is no more insurance. Endowment policies are primarily for the benefit of the insured—in contrast to whole life policies which are primarily for the protection of the beneficiary.
A. The endowment period	The endowment policy is basically a savings plan with insurance protection to guarantee the payment of the savings goal if the insured should die before accomplishing his savings objective.

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
	The most popular endowment plans are the 20-pay endowment, the 10-pay endowment, and the endowment at age 65. The number of years or the age shown indicate the premium paying period and the date the face amount of the policy will be paid as an endowment. Endowment policies are also available for other periods: 5-year, 15-year, endowment at age 55, and at age 60.
B. Uses of endowment policies	Among the uses of endowment plans are the following: 1. Accumulation of funds for college costs 2. Investment and savings plan 3. Accumulation of funds for retirement
1. Accumulation of funds for college costs	Endowment plans are ideal for the accumulation of funds for college costs. Parents often start an endowment plan for this shortly after the birth of a child. In this way the accumulation period can be spread over many years, instead of a few. The insured should be the father of the child. In this way the money for education is available whether the father lives or dies. For this purpose an 18-pay or a 20-pay endowment should be used.
2. Investment and savings plan	Most people find it difficult to accumulate money regularly over a long period. With an endowment plan the insured has the gentle compulsion of the premium payment to remind him to save a portion of his income. The longer period endowment plans are the best for investment and savings.
3. Accumulation of funds for retirement	The endowment at 65 provides guaranteed funds to supplement pensions and Social Security. If retirement is planned at an age earlier or later than 65, another endowment plan may be used for payments at the planned retirement age.

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
IV. Retirement Income Plans	*Retirement income* policies are designed especially to provide guaranteed income at retirement age.
A. Various retirement ages	These policies may start at any age. They provide units of $10 a month of guaranteed income for life, from the retirement age selected. The standard retirement income policies provide income to start at ages 55, 60, 65, or 70. Retirement income policies are a variation of the endowment policy, with a death benefit if the insured dies before his selected retirement date. Upon attaining retirement age the insured usually has options in the policy permitting him: 1. To elect a joint income with another person 2. To take the accumulated cash available 3. To take other income options in the policy The options at retirement age are varied and liberal, and the insured should seek advice from the insurance company as to the best option for him.
B. High premium	Because of the guaranteed-income-for-life feature, premium for the endowment at retirement is high. For instance, at age 65 it is approximately $1,600 for each $10 a month of guaranteed income. It is $16,000 for each $100 a month of income. The emphasis in retirement income policies is on savings: therefore they have high cash values during the accumulation period. The big plus of this policy is that it permits the insured to have an accumulation plan extending over many years before his retirement. In this way, relatively small savings each year over many years will guarantee a generous retirement income.

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
C. Start of payments flexible	Retirement income plans are usually devised to mature, and to start paying income at the popular retirement ages of 55, 60, 65, and 70. However, the retirement income guarantees under these policies are quite flexible. The retirement income can be started at any age, earlier or later than the age designated in the policy. The adjusted guaranteed retirement income will be more or less, depending upon the age selected.

SUMMARY

Term insurance provides protection only and has no savings element. It should be purchased only for temporary needs that will no longer exist at the end of the contract term. These temporary needs include protection for a loan or a mortgage obligation, and to protect the insurability of the insured. They also include protection of higher education for children, protection of a business interest, and extra protection of a family during the child-raising period.

Whole life insurance provides permanent protection for the full lifetime of the insured. In addition to protection it provides savings, represented by the cash value of a policy.

Limited payment policies provide permanent insurance for the lifetime of the insured but payment of premiums is compressed into a stated number of years. Typical policies of this type include 10-payment life, 20-payment life, and life paid up at 65.

Endowment policies emphasize savings and provide for payment of the face value of the policy to the insured if he is still alive at the end of the endowment period. Policies of this type are useful for accumulation, of funds for college costs, for an investment and savings plan, and for retirement.

Retirement income policies provide specifically for a guaranteed income at retirement age. When he reaches retirement age, the insured usually has several options for the way of receiving income. The premiums for this type of insurance are high. Payments can begin at age 55, 60, 65, or some other specified age.

Lesson 4

Programing Life Insurance By Use of Policy Settlement Options

OBJECTIVES

1. To provide the students with an understanding of the programing of life insurance
2. To provide information on programing for income needs immediately after the death, during the adjustment period, during the dependency period, during the "blackout" period, for life income to the widow, and for other needs

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
I. Programing (or Preplanning)	
A. The need for programing	The primary purpose of life insurance is to provide funds for the continuation of income to the family of the insured in the event of the death of the wage earner. Most families are dependent for subsistence upon the income of the wage earner. His present and future income constitute his economic value (or human life value). This human life value usually comprises most of the assets of the head of a family. Upon the death of the wage earner the need for income for the family will continue. Regular income will be needed for the widow for life and for dependent children through the education years. Life insurance policies have various options at settlement that provide for the proceeds of the policies to be paid as income to the dependents. Experience shows that large sums of life insurance proceeds paid in cash are most often dissipated in a short period of time. This is due to the inexperience of beneficiaries in handling large sums of money.

29

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
B. The nature of programing	On the other hand, life insurance proceeds programed (preplanned as income) through the use of settlement options in the policies can provide guaranteed regular income to the beneficiaries. Each life insurance policy contains settlement options. However, an overall income plan involving the proceeds of more than one policy is the best way to guarantee the maximum income to the family. The programing of life insurance proceeds should carefully integrate the life insurance with other assets left by the deceased. Such pre-planning will make the best use of all assets to meet the income needs of the survivors. Other assets which might be available at death, that should be programed into the income replacement plan, would include: 1. Social Security survivors benefits 2. Group insurance benefits 3. National Service Life Insurance benefits 4. Savings bank life insurance benefits 5. Pension funds 6. Savings bank accounts For the great majority of families the overwhelming portion of the assets available will be the proceeds of life insurance and Social Security survivors benefits. To help the family head in preplanning his potential life insurance assets for the maximum income, a capable life insurance underwriter should be consulted.
C. Advantages of programing	If life insurance proceeds and other assets are properly programed there will be no interruption of income to dependents following the death of the insured, and dependents will have guaranteed income.

30

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
	In preplanning, many family income needs should be considered to properly allocate the assets to the particular needs of the family. Each program will be different, depending on the age of the survivors, their income needs, and the amount of funds available. Total assets available at death of an insured are usually not sufficient to continue the survivors on the same income level. For this reason, it will probably be necessary to compromise on the desired income level of the survivors. Deciding where the compromises should be made calls for judgment, experience, and courage. A preplanned program is likeiy to come closer to the desires of the family head. Chaos and waste of life insurance proceeds are likely if no plan is made until after the death of the income earner.
II. Programing for Immediately After Death	After a death there are many needs for cash. Among them are: 1. Funeral expenses 2. Expenses of last illness 3. Outstanding unpaid bills 4. Unpaid taxes 5. Unpaid installment accounts 6. Cost of administration and probate of will The amount of cash needed immediately following death will vary with the financial status of the family. A good rule of thumb is that ready cash should be available equal at least to 1 year's income of the deceased. A $10,000 income would require $10,000 for cleanup funds. A $20,000 income would require $20,000 cash.
III. Programing readjustment funds	Few husbands can leave their families as much income for life as the wage earner provided when alive and working. The step down from the higher income to the lesser income available after death usually requires a drastic readjustment in living standards.

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
	And it may also require major decisions on the part of the survivors. Should they sell the home and move to a smaller house? Should the widow go to work? Should older children return to college? It is unfair to force the widow to make these major decisions and adjustments immediately following the death of her husband. For a period of time income should be provided at the level of that of the husband when he was alive. The period for which readjustment income will be needed will vary with family situations. A rule of thumb is that previous income should continue for 2 years. This will permit an orderly transition to lower income, without undue financial pressure.
IV. Programing Income During Dependency Period	The dependency period is from the time of death of the insured until children have completed formal education and are self-supporting. Usually, Social Security survivorship benefits will provide a good portion of income during this period and will continue until the youngest child is 22, if attending school. If no child continues in school until age 22, these benefits will stop when the youngest child is 18. The amount of income required by the family during the dependency period will vary with each family. In most situations some life insurance proceeds will have to be used to bring the family income to the desired level. A rule of thumb is that during the dependency period the guaranteed income to the family should be at least one-half of that provided by the producer while alive.
V. Programing Income to Widow During "Blackout" Period	From the time the youngest child reaches 22, if in school, (age 18 if not attending school) until the widow reaches 60, no Social Security

32

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
	survivorship income is paid. This period is referred to as the Social Security "blackout" period. The widow requires income during this period which will usually have to be provided by life insurance proceeds. The amount of income required during the "blackout" period will vary in each case. Among the variable factors that affect the amount of income required during this period are: 1. Health of widow 2. Place of residence 3. Children attending school A rule of thumb is that the widow would require an income equal to at least one-quarter that earned by her deceased husband.
VI. Programing Life Income to Widow	Social Security survivorship income payments to a widow will start again at age 60, if she has not remarried. They will continue for life, if she does not remarry and does not earn more than the maximum allowed by Social Security regulations. The Social Security income will probably not be high enough to permit the widow to live at a standard desired. For this reason supplemental income from the proceeds of life insurance will usually be required. A rule of thumb is that the total of the life income to widow (Social Security income plus other income) should be at least one-quarter of the income of the deceased husband.
VII. Programing Other Major Needs	
A. Emergency funds	Income to widow and to the family is usually minimal, and does not provide a margin for emergency needs. Emergency needs do arise over the years, for example, extensive medical or dental bills, need for special training, etc.

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
	These emergency needs occur whether income is high or low, and must be paid. A good program should provide money to be set aside for emergency needs. The widow should then have the privilege of withdrawing a portion of the emergency fund under conditions outlined during his lifetime by the income-producer. A capable life underwriter could advise on the amount of such funds to be set aside.
B. Educational funds	The value of a college education is known to most parents. The cost of college is continually rising, but the benefits in the way of better jobs and higher income are readily acknowledged. With reduced income to widow and family it would be almost impossible to pay college costs from current income. In the program, through the use of installment options in the policies, an amount for higher education should be provided for each child.
C. Mortgage funds	Cancellation of the mortgage on the home is particularly desirable when the wage earner dies. Mortgage payments on principal and interest constitute a large share of the normal living expenses for most families. As the widow and children will have a greatly reduced income, mortgage payments would loom exceptionally large. Cancellation of the mortgage with its large monthly payments, could permit the survivors to own the home "free and clear" of debt. The resulting much lower cost would hopefully permit the family to continue to live in their own home.
VIII. Programing Other Lesser Needs	Where it is possible through life insurance proceeds to provide adequate income for widow and family, and to provide for other major needs, it may

34

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
	also be possible to provide for lesser needs if present. Lesser needs which an insured may wish to consider are explained below.
A. The dependent parent	Many men are responsible for the support of a parent. After death of the insured this obligation can be discharged through a provision in the program of the life insurance proceeds. If the need for help for parents should cease, the insurance proceeds marked for this need could be used to increase the income to widow and family.
B. The handicapped child	If there is a handicapped child to be supported the insured may wish to give special consideration to this problem. This special consideration could be given in one of several ways: 1. A larger income for life to such a child 2. A special trustee to be appointed for the income of the handicapped child, on death or incapacity of the mother Special consideration for the needs of a handicapped child may be made within the framework of the program for the disposition of life insurance proceeds.
C. Special occasion gifts	If the life insurance proceeds permit, an amount for special benefits of a sentimental nature may be provided. Such provisions might include remembering with a gift of money such events as Christmas, birthdays, anniversaries, etc.
D. Charities	Many policy owners desire to name religious, educational, and charitable institutions as the final beneficiaries under their program for the preplanned distribution of life insurance proceeds. This may be particularly desirable after the death of all members of their immediate families.

CONTENT OUTLINE	TEACHING SUGGESTIONS AND TECHNIQUES
IX. Periodic Review of the Program	When a policy owner makes a program for the distribution of life insurance proceeds, it is not a final act. Programs and settlement options should be reviewed frequently. Families grow and change, economic conditions change, amounts of life insurance proceeds available change. Programs and settlement options should be kept up-to-date. There is nothing more unfair and frustrating than a program that does not meet the needs of the survivors when it goes into effect. Beneficiaries cannot alter either provisions of the program or the settlement options under which income is paid. Beneficiaries have only the income and privileges granted them by the insured when he is alive. Constant review of a plan is a necessity to keep the plan current with conditions as they change. A review every year or two is most important.

SUMMARY

Programing of life insurance is needed because unplanned insurance benefits are not likely to fill the needs that survivors will have. Experience has shown that payments of large amounts of cash are likely to be dissipated in a short time.

The objective of programing is to provide guaranteed regular income to the survivors. This is done by selection of the kinds and sizes of policies, and by selection of the settlement options. Assets other than insurance must also be taken into account in programing.

In programing for immediately after death, money must be provided for funeral expenses, for unpaid taxes, and for other unpaid bills. During the period when children are still dependent, provision must be made not only for their support but also for their education.

The time between the end of the dependency of children and the 60th birthday of the widow is called a "blackout" period. During this period no

Social Security benefits are payable; the programing must provide income during that period. Even after age 60, life insurance proceeds are needed to supplement the Social Security benefits.

Programing must also provide for special needs, such as emergency medical bills and payoff of a mortgage. Provision must also be made for other needs, if present, such as a dependent parent, a handicapped child, and gifts for special occasions.

The programing must be reviewed every year or two to assure that needed changes are made.

Selected Teaching Aids and Bibliography

BOOKS

Gregg, Davis W., editor. Life and health insurance handbook; 2d edition. Homewood, Illinois. Richard D. Irwin. 1964.

Greider, Janice E. & Beadles, William T. Law and the life insurance contract. Homewood, Illinois. Richard D. Irwin. 1968.

Huebner, Solomon S. & Black, Kenneth, Jr. Life insurance; 7th edition. New York, N.Y. Appleton-Century-Crofts. 1969.

Institute of Life Insurance, 277 Park Avenue, New York, N.Y. 10017.
(All of the following are free in limited quantities. All are paper.)
Making the most of your money. Rev. ed., 1971.
A date with your future. Rev. 1971.
Life insurance fact book. Published annually.
A list of worthwhile life and health insurance books.
The search for economic security. 1969.

Mehr, Robert I. Life insurance: theory and practice. Austin, Texas. Business Publications. 1970.

McGill, Dan. Life insurance. Homewood, Illinois. Richard D. Irwin. 1967.

White, Edwin H. Business insurance; 3d edition. Hightstown, N.J. Prentice-Hall. 1963.

FILMS AND FILMSTRIPS
(All of the following are available from Association-Sterling Films, 600 Grand Avenue, Ridgefield, N.J. 07657)

Consumer education series (3 filmstrips for $10)
The role of the consumer.
Consumers in the market place.
Consumers in action.

Life insurance--what it means and how it works. (Motion picture.) Animated color. 13 minutes. Available for free loan.

Marriage and money (Filmstrip). 67 frames, 15 minutes. Color. $3. Also available on free loan.

Time...and a place to grow. (Motion picture.) Black and white. 26 minutes. Available for free loan.

38

ERIC Clearinghouse
DEC 13 1971
on Adult Education